

International Accounting Standards Board
Attn. Sir David Tweedie, Chairman
30 Cannon Street
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United Kingdom

Financial Accounting Standards Board
Attn. Ms. Leslie Seidman, Chairman
401 Merritt 7
PO Box 5116
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Brussels, 4 March 2011

Dear Leslie and Sir David,

International convergence of accounting standards

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on recent developments in the process to achieve a common set of high-quality global standards for financial reporting.

In support of the IASB and FASB convergence efforts to meet the G20 requirements, EFRAG had responded to the request for comment that the IASB issued on 27 May 2010 and made recommendations to both Boards on what a converged standard on the accounting for financial instruments should say. EFRAG had recommended that the directions set by the IASB in the first phases of the development of IFRS 9 should form the basis for high quality financial reporting requirements for financial instruments. In expressing its support for the convergence efforts, EFRAG has repeatedly emphasised that pursuing high-quality principles-based standards should be the priority.

The FASB recently made tentative decisions to adopt a mixed measurement model for financial instruments based on the characteristics of the instruments and the business strategy for holding them; to agree with the IASB on an expected loss model for impairment and on an overarching principle for offsetting financial assets and liabilities; and to issue the IASB Exposure Draft on hedge accounting as a Discussion Paper. These new developments show strong signs of the FASB's willingness to work actively towards a converged standard for the accounting for financial instruments.

In the meantime, IASB has not yet defined possible requirements for portfolio hedge accounting, consistent with the objective set for hedge accounting to reflect hedging

strategies implemented following an entity's risk management. In its comment letter on the IASB Exposure Draft *Hedge Accounting*, EFRAG expects to express the view that the IASB should not finalise a standard on the general hedge accounting model, before developing a model for portfolio hedging.

As part of the response to the financial crisis, the G20 called on accounting standard setters to work urgently to achieve a single set of high-quality global accounting standards, with a particular focus on the accounting for financial instruments. In this context, EFRAG observes that reaching agreement on a converged financial instruments standard appears again to be a realistic goal that IASB and FASB can achieve jointly. While it may not be possible to finalise hedge accounting requirements before the end of 2011, agreement on the classification and measurement, impairment and offsetting requirements before the end of 2011 is certainly an achievable and valuable goal.

Considering the recent re-deliberations of the FASB on financial instruments and its steps towards convergence, and the work that the IASB still has to do to finalise the revision of its financial instruments standard, we urge the two Boards to continue their joint efforts to develop a converged high-quality financial instruments standard – with careful consideration of EFRAG's recommendations to that purpose – and agree on a new joint timeline for the finalisation of such standard, consistently with the G20 requirements.

Yours sincerely

Françoise Flores

EFRAG, Chairman